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Report to Congressional Requesters

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May 1986

FEDERAL RETIREMENT

Records Processing Is Better; Can Be Further Improved

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United States
General Accounting Office
Washington, D.C. 20548

General Government Division

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May 15, 1986

The Honorable Jeff Bingaman
United States Senate

The Honorable Albert Gore, Jr.
Ranking Minority Member
Subcommittee on Civil Service,
Post Office and General Services
Committee on Governmental Affairs
United States Senate

This report responds to your request that we identify ways in which the processing of civil service retirement documents other than civil service retirement claims could be streamlined and backlogs could be reduced. The report shows that staff at the Office of Personnel Management (OPM) were performing many unnecessary steps in processing these documents and that much of the process could be automated. As a result of our review, OPM has taken numerous actions and plans more to make its document processing more efficient and timely, thereby improving service to federal retirees.

As arranged with your offices, we are sending copies to the Directors, Office of Management and Budget and Office of Personnel Management. Copies will also be made available to other interested parties who request them.

James L. Howard for
William J. Anderson
Director

Executive Summary

The Office of Personnel Management (OPM) has had persistent difficulties in expeditiously processing civil service retirement applications and related documents. While delays and backlogs of retirement applications have been reduced recently, Senators Bingaman and Gore reported that they continue to receive complaints about processing delays on other retirement-related documents. They requested that GAO review these areas to identify ways to streamline processing and reduce backlogs to acceptable levels. (See pp. 8 and 9.)

Background

OPM processed about 2.9 million retirement applications and related documents in fiscal year 1985. Processing operations are divided between OPM headquarters in Washington, D.C., and its records storage facility in Boyers, Pennsylvania. OPM has made some improvements in its processing procedures over the years; however, OPM has not undertaken an overall evaluation to identify opportunities for major improvements. Much of the system remains a manual operation. (See p. 8.)

GAO looked at four processing operations in detail—applications from former employees seeking refunds of their retirement contributions, applications from people who owe money to the fund, notifications of change of address, and requests for changes in health and life insurance enrollment. These four operations account for over half the documents that OPM processes.

Results in Brief

Each of the processes GAO reviewed contained inefficiencies which contributed to delays and backlogs. In part, OPM was not making the best use of its automated equipment. In some instances, personnel were not organized or assigned to achieve maximum productivity. During GAO's review, OPM made several changes that eliminated unnecessary processing steps and improved work flow; however, service to retirees and others could be further improved if OPM made other changes at relatively little cost. (See pp. 13 and 20.)

GAO estimated that the retirement fund potentially lost as much as $420,000 in interest income because of delays in processing applications in fiscal year 1985 from people who owed money to the fund. (See pp. 24 to 29.)

Principal Findings

Steps Eliminated

Unnecessary steps existed in all of the processes GAO examined. For example, OPM staff reviewed refund applications three times for the same information. OPM agreed that two of the reviews were unnecessary and eliminated them, thereby freeing employees to process other documents. (See p. 12.)

In another instance, requests for insurance changes were sorted four times before the changes were made. OPM agreed that two of these sorts were unnecessary and reorganized the work flow to eliminate them. Because of this and other improvements, OPM's processing rate for insurance changes nearly doubled during the months following the changes. (See p. 18.)

Increased Automation

Processing time and steps could be saved if refund applications and applications from people who owe the fund money were controlled by computerized systems similar to those used for other types of applications instead of the current manual procedures. (See p. 13.)

Dual Processing

Survivor benefit applications are first processed at the Boyers facility where preliminary benefit amounts are calculated and payments initiated. This takes about 10 days. The applications are then sent to OPM headquarters where the annuities are recalculated and life insurance coverage is changed if necessary. This takes 37 to 39 more days. All of the information needed to fully process the application is available to the staff at Boyers, therefore, there is no need to process these applications at both locations. (See p. 14.)

Between 250 and 300 retirement records are shipped back and forth between Boyers and Washington, D.C., every day to process requests for insurance changes. Most of this is unnecessary because an estimated 80 percent of the requests and inquiries can be answered without checking the retirement records or can be handled by personnel in Boyers. (See p. 19.)

Lost Income

OPM gives low priority to the processing of applications from people who want to pay the retirement fund money they owe for prior service to

receive credit for that service. Typical cases are employees who worked for the government more than once and withdrew their retirement contributions when they left. OPM can delay processing because the employees may wait until they retire to make the payments, and the interest charged on the amount owed is normally only 3 percent. At the time of GAO's review, processing took 5 months, of which 2 months was considered by OPM to be a delay. If applicants pay before they retire, they are not charged interest for this delay period. Moreover, by not having these payments earlier to invest, the retirement fund foregoes additional interest income. For applications processed in fiscal year 1985, the interest loss could be as much as $420,000 ($240,000 forgiven the applicants and $180,000 that could have been earned on the deposits if they had been available earlier to invest). (See pp. 24 to 29.)

Recommendations

GAO recommends that the Director, OPM

- implement automated case control systems for more efficient processing of refund applications and applications from people who owe money to the retirement fund;
- revise the processing of survivor benefit applications and insurance cases to allow staff at Boyers to make final decisions and minimize the number of files that are transported between Boyers and headquarters;
- assign staff to regularly process service credit applications in order to eliminate delays and enable the retirement fund to increase earnings.

GAO is also recommending that the Director, OPM take additional actions to streamline operations and eliminate unnecessary processing steps. (See pp. 16 and 21.)

Agency Comments

OPM generally agreed with GAO's recommendations and has taken several actions to implement them. OPM said it has developed the implementing framework for the automated case control systems, and systems development is now in process. OPM stated that, while it agreed with GAO's recommendation to streamline the processing of survivor benefit applications, it could not implement the recommendation now because its budget has been reduced. OPM told GAO that implementation of microfilming procedures for insurance enrollment changes had dramatically reduced the transportation of case files between Boyers and headquarters. OPM also said that it has assigned additional resources to process service credit applications and they are now being processed within 40 days. (See pp. 16, 21, and 28.)

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Contents

Executive Summary		2
Chapter 1 Introduction		8
	Prior Studies Called for Automation	8
	Objective, Scope, and Methodology	9
Chapter 2 Application Processing Is Being Streamlined		12
	Processing of Applications for Refunds Is Being Improved	12
	Processing of Service Credit Applications Can Be More Efficient	13
	Other Processes Can Be Improved	14
	Productivity Improvement Program	15
	Conclusions	15
	Recommendations	16
	Agency Comments and Our Evaluation	16
Chapter 3 Productivity Improvement in Annuity Roll Maintenance		18
	Insurance Section Reorganization Improved Productivity	18
	Case File Handling and Transportation Could Be Reduced	19
	Use of the Health Insurance Change System Could Be More Efficient	20
	Changes to the Master Annuity File Being Further Automated	21
	Conclusions	21
	Recommendations	21
	Agency Comments and Our Evaluation	21
Chapter 4 Interest Lost by Delaying Processing of Service Credit Applications		24
	Interest Waived	24
	Investment Interest Lost	26
	Conclusion	27
	Recommendation	27
	Agency Comments and Our Evaluation	28
Appendixes		
	Appendix I: OPM Processing Statistics	30
	Appendix II: Advance Comments From the Office of Personnel Management	31

Tables

Table 3.1: Insurance Enrollment Changes Processed Per Day 18
Table 4.1: Interest Forgiven on Service Credit Applications 25

Abbreviations

GAO	General Accounting Office
OPM	Office of Personnel Management

Chapter 1

Introduction

The civil service retirement system, established in 1920, is the largest of the government's retirement systems for federal civilian employees. In 1985, it paid benefits to almost 2 million former employees and survivor beneficiaries. About 2.8 million active employees participate in the system.

The Office of Retirement Programs in the Office of Personnel Management (OPM) administers the retirement system. During fiscal year 1985, OPM processed over 390,000 applications (for retirement benefits, survivor benefits, and refunds of employees' contributions when they leave government employment before retirement) and about 1.6 million annuity roll changes (addresses, taxes, insurance, etc.) OPM also responded to almost 900,000 requests for information during the year. Appendix I contains details on processing workloads.

Processing functions are divided between a records center in Boyers, Pennsylvania, where the retirement records are stored,[1] and OPM headquarters in Washington, D.C. Generally, applications and correspondence go to Boyers for initial processing. Boyers staff fully process applications for refunds of retirement contributions and forward other applications and correspondence to headquarters for final review or action. In 1985, about 300 OPM employees at Boyers and 600 at headquarters processed applications and made changes to the annuity roll. The administrative cost to operate the system during fiscal year 1985 was about $44 million.

Prior Studies Called for Automation

Because of congressional and other concerns about slow processing of civil service retirement applications and correspondence, several studies have looked at these processes and generally concluded that OPM should modernize them. In 1972, the General Services Administration's National Archives and Records Service analyzed OPM's manual system and recommended that it be automated. Also a 1974 OPM study recommended a centralized system of automated retirement records. OPM management did not act on these recommendations because of the costs involved, the lack of staff to do the computer programming, and uncertainty over the technical feasibility of a centralized system.

[1]The records center is in a former limestone mine which provides low-cost storage and safety for the retirement files.

Three more recent studies[2] also called for modernizing the paper-laden, manual systems used to process applications and changes to the annuity roll. The latest was a 1981 study in which we concluded that OPM needed to perform an in-depth analysis of all aspects of its manual processes to determine where the bottlenecks and inefficiencies were and where automation could improve the process.

OPM has made some improvements through increased automation since these studies were completed. They include development of

- a computerized document case control system used to track and control (1) applications in process, except refund applications and service credit applications[3] , (2) certain correspondence (congressional, White House, union, etc.), and (3) case files removed from the records center;
- a computerized service credit billing and collection system used to bill applicants and record payments for credit of prior service; and
- an on-line computerized health insurance change system to facilitate processing health insurance changes.

OPM also significantly reduced the excessive backlog and processing time for retirement claims that we noted in our 1981 report. Despite these improvements, the retirement processing system largely remains a manual effort, and OPM has not undertaken an overall study to identify bottlenecks, inefficiencies, and whether automation could improve the process and service to employees and annuitants.

Objective, Scope, and Methodology

Senator Jeff Bingaman and Senator Albert Gore, Jr., ranking minority member, Subcommittee on Civil Service, Post Office and General Services, Senate Committee on Governmental Affairs, asked us to identify ways in which the processing of documents other than retirement claims could be streamlined and backlogs could be reduced to acceptable levels.

[2]Improvements Needed In Processing Civil Service Retirement Claims (GAO/FPCD-78-10, Jan. 10, 1978); President's Management Improvement Council Staff Report on the Federal Employees' Retirement Claims Processing System, Office of Personnel Management, November 19, 1980; and Action Needed to Eliminate Delays in Processing Civil Service Retirement Claims (GAO/FPCD-81-40, July 20, 1981).

[3]Applications from individuals to pay the retirement fund for (1) contributions which had been refunded to the individuals after earlier periods of federal employment or (2) periods of creditable service for which contributions were not made when the service was performed.

Application and Change Processing

We reviewed how OPM processed (1) applications for refunds of retirement contributions, (2) applications for service credit, (3) insurance actions, and (4) notifications of address changes. These four processes accounted for about half of all processing actions in fiscal year 1985. We also did limited work on other processes to identify if there were instances where processing could be done more efficiently and service could be improved to retirees and others.

We developed operational flowcharts by reviewing procedures and interviewing and observing employees in OPM's Washington, D.C., and Boyers, Pennsylvania, offices. The flowcharts were discussed with supervisors and managers to verify our information and to obtain OPM's reasoning for the processing steps. We questioned processing steps which (1) did not appear to have a clear purpose, (2) appeared to duplicate other steps, or (3) appeared to be suited for automation.

Lost Earnings Opportunity

To determine the amount of income lost to the retirement fund because service credit applications were not processed more quickly, we computed the amount of interest that OPM forgave for its processing delays on applications processed during the period October 1, 1984, through June 30, 1985. We determined the dollar value of these applications and the length of the processing delays using OPM's computerized service credit billing and collection system. We then estimated the amount of interest OPM could have earned from investing the monies had it processed the applications earlier.

Before using the service credit billing and collection system, we verified a sample of the records in the data base to determine the accuracy of the data and to identify any potential problems in our using it. Our analysis disclosed that the data base accurately reflected the information in the source documents.

We conducted our audit in accordance with generally accepted government audit standards. Our audit work was performed during the period January 1985 through August 1985.

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Application Processing Is Being Streamlined

As the result of our review, OPM has eliminated duplicative steps and is considering other improvements in the processing of refunds and service credit applications. According to OPM officials and our own analysis, these changes have reduced processing time and enabled OPM to use its employees more productively. Nevertheless, we believe further improvements could be made if OPM more fully used its computerized systems. We made a limited review of the processing of survivor applications and check reclamations and noted opportunities for streamlining. All such records processing needs to be reviewed in greater detail by OPM.

Processing of Applications for Refunds Is Being Improved

Employees, upon leaving federal service, can apply to OPM for a refund of their contributions to the retirement system. Based on our observations, OPM eliminated two duplicative reviews in processing refund applications which freed four workers to perform other duties. In addition, OPM plans to further streamline the refund process. These changes will eliminate several manual steps, free more workers, and provide quicker responses to inquiries.

Duplicate Reviews Eliminated

Refund applications received three identical reviews, twice by mailroom clerks and once by a technician, to ensure that the records were in order. We questioned the need for the two reviews performed by mailroom clerks because they duplicated each other and the technician's review.

According to the Assistant Chief of the Operations Support Division, the mailroom reviews were apparently instituted when refund processing was divided between OPM activities in Washington, D.C., and Boyers, Pennsylvania. When the refund process was consolidated at Boyers in 1968, procedures were not revised. The Division's Assistant Chief agreed that the mailroom reviews of refund applications were unnecessary and eliminated them as of May 1985. This freed four clerks to process other documents. OPM officials told us that in fiscal year 1985, they processed 6.2 percent more refunds with 3.4 percent fewer staff years of effort.

Automation Should Improve Processing

A mailroom clerk spends about 4 hours a day manually comparing original refund applications to a list of refund payments and to copies of refund applications which were produced when the applications were received. The purpose of this comparison is to ensure that fraudulent applications have not been entered into the process and that names or

addresses on the refund applications were not altered during processing. It takes another clerk about 2-1/2 hours each day to make the copies.

We proposed a more efficient alternative process. When the applications are received, information could be entered into a computerized control file similar to the case control system that OPM has for retirement applications. This would take a data entry clerk about 1-1/2 to 2 hours a day. The computerized control file could be matched against the existing computerized refund payment file to provide adequate control. This would eliminate the need for making the manual comparison and copying the applications. Use of the computerized control file would also eliminate manual sorting of applications, eliminate manual preparation of file charge cards (cards that are placed in the files to show that a particular file is charged out), and allow the location and status of refund applications to be quickly identified instead of manually searching the files for this information. This control system would not require additional computer equipment. In September 1985, the Office of Retirement Programs requested OPM's Information Management Office to make the change.

Processing of Service Credit Applications Can Be More Efficient

Many employees owe the retirement fund for periods of service for which contributions were either refunded to them because they left federal service or for periods when contributions were not required (e.g., temporary or intermittent employment). To be credited for the earlier service, the employees must submit service credit applications to OPM. OPM determines how much employees owe the retirement fund and bills them. Credit is granted upon payment by the employee. This is essentially a manual process which, if automated, would save several steps and free workers for other duties.

Federal employees usually benefit by deferring payment for service credits until they are about to retire (see ch. 4). Consequently, many of the applications are repeats from employees who are requesting updated bills.[1] Under current procedures, these requests are not identified as repeat applications until after a manual sorting and batching of the requests and a search and technical review of the files are made.

Several advantages could be gained if service credit applications were entered into an automated control system when received. An automated control system could (1) generate acknowledgements, (2) automatically

[1]Fourteen percent of a group of 708 applications we examined were repeat applications.

trigger action necessary to instruct a separate computer system to prepare updated bills for repeat applicants who only want to know how much they currently owe, and (3) produce sorted search slips for the clerks to use in pulling the files of those who are applying for the first time. OPM officials agreed that automation could eliminate several steps and free file clerks to process other documents.

Other Processes Can Be Improved

In our limited review of other processes, we identified opportunities for streamlining survivor benefit application and check reclamation processing. We believe that a governmentwide productivity improvement program announced by the President in August 1985 offers OPM an opportunity to study all records processing in depth and make more improvements.

Survivor Annuities

When the survivor of a deceased annuitant applies for survivor benefits, the application receives similar reviews in Boyers and headquarters. Both reviews are based on the same information. The Boyers review, which takes about 10 days, calculates the survivor annuity rounded down to the next lower $10. The annuity, called "special pay" at this point, begins being paid at this amount. Boyers then forwards the application to headquarters. The headquarters review, which takes 37 to 39 more days, calculates the annuity to the nearest dollar and changes the health insurance coverage to self only if the spouse claimed no dependent children. Headquarters also calculates a retroactive payment for the difference between the special pay and final pay annuity amount.

If the technicians in Boyers calculated the final annuity amount and made the insurance change where necessary, there would be no need for the special pay or retroactive payment and full benefits could be provided to survivors much sooner. Headquarters staff would be freed to process other documents.

Check Reclamations

When Boyers is notified that an annuitant has died, technicians drop the individual from the retirement roll and manually compare the date of death with a computerized check register to determine if checks were issued after the annuitant's death. Information on such checks is used to manually prepare a payment history that is used to make a tape. The tape is then sent to the Department of Treasury to reclaim the checks. This process involves four clerks and takes 3 or 4 days, including 1 or 2

days to produce the pay history. The Boyers' computer room manager told us that the manual preparation of the pay history could be eliminated by automating the process. This would not require any additional equipment and only a minor amount of programming time.

Productivity Improvement Program

In August 1985, the President announced a governmentwide productivity improvement program whose main goal is to improve productivity in governmental functions by 20 percent by 1992. Other objectives include improving service to the public, reducing operating costs, and making managers and employees accountable for greater efficiency in delivering goods and services while maintaining quality and timeliness. Agencies were required to establish programs with specific goals and baseline starting points and to prepare timetables for accomplishment. Agencies were expected to (1) review how they manage programs and deliver services; (2) consider alternative approaches including increased automation and organizational streamlining; and (3) establish productivity goals. We believe this program is a useful vehicle by which OPM could review all of its retirement processing operations to improve efficiency, economy, and service.

Conclusions

OPM has streamlined its processing of applications for refunds and service credits. This has freed staff to do other work and has reduced processing time. Retirement program officials agreed that increased automation could further speed processing of refund and service credit applications and free staff for other work.

The time needed to process benefit applications from survivors of annuitants could be reduced by more than 30 days. These applications could be entirely processed by the staff at Boyers permitting surviving beneficiaries to receive full benefits sooner and free OPM staff at headquarters to process other applications. Moreover, some staff at Boyers could be freed for other duties by automating the preparation of pay histories for check reclamations.

We believe more improvements may be possible, particularly if OPM studied in detail other processes which we did not include in this review or covered only to a limited extent. The President's Productivity Improvement Program offers an excellent opportunity to further study and make major productivity improvements in OPM's retirement processing procedures.

Recommendations

We recommend that the Director, OPM,

- implement automated case control systems for more efficient processing of refund applications and service credit applications;
- revise the processing of benefit applications from survivors of annuitants to allow staff at Boyers to make the final review and decisions on these cases;
- automate the process of generating annuity payment histories; and
- as part of the President's Productivity Improvement Program, analyze all of OPM's retirement processing operations for opportunities to increase productivity, reduce costs, and improve service.

Agency Comments and Our Evaluation

OPM generally agreed with our recommendations and has taken several actions to implement them. OPM said it has developed the implementing framework for the automated case control systems currently being developed by its automated systems staff. OPM also said that as part of a broader initiative, a system is being developed to automate the process for generating payment histories. In addition, OPM stated that it chose the system which supports the maintenance of the annuity rolls as one of OPM's highest priority projects under the President's productivity program. OPM said it was awaiting implementing instructions from the Office of Management and Budget before starting the efficiency study of this system. (These instructions were subsequently issued on February 28, 1986, and OPM should proceed with the study.) To supplement this project, OPM said it planned efficiency reviews of the refund and service credit functions but the reviews have been postponed due to budget cutbacks.

OPM said that, while it agreed with the objective of our recommendation to streamline the processing of survivor benefit applications, it could not implement the recommendation because of hiring limitations required by recent budget reductions. OPM told us that it considered another alternative to streamline the process by eliminating the steps currently performed at Boyers but could not implement this alternative because of other workloads.

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Chapter 3

Productivity Improvement in Annuity Roll Maintenance

OPM significantly improved productivity in processing insurance changes, primarily by a reorganization of the insurance section and realignment of duties. We believe that OPM could further improve productivity and service to annuitants on insurance cases by transporting fewer case files between the records center in Boyers, Pennsylvania, and Washington, D.C., when processing certain changes and answering inquiries.

An automated system is available for processing health insurance changes; however, the insurance section is not using this capability efficiently. OPM is also designing an automated system for processing changes to the master annuity roll which, among other things, could streamline the processing of annuitants' changes of address by eliminating most of the current processing steps. We are making recommendations to OPM to (1) make better use of its automated health insurance system and (2) ensure that similar inefficiencies are eliminated when the new process to make changes to the master annuity roll is implemented.

Insurance Section Reorganization Improved Productivity

After we questioned many processing steps in the insurance section, OPM reorganized it in early June 1985 and nearly doubled the section's productivity. This was done by eliminating unnecessary record sorting, realigning processing duties, and shifting some duties from technicians to clerks. The improvement in processing can be seen in table 3.1.

Table 3.1: Insurance Enrollment Changes Processed Per Day

	Health	Life
Pre-reorganization		
April	67	32
May	81	39
Post-reorganization		
June	122	83
July	157	98

This section was also able to reduce its backlog of total items needing work from over 73,000 in June to 44,000 in October. Most of these were requests for information; fewer than 2,000 were actual health insurance enrollment changes.

Before the reorganization, all documents, even requests for insurance forms, were sorted four times before they were processed, as follows:

(1) by name into three alphabetical groups corresponding to the section's three work units; (2) by type of document; (3) by the last two digits of the case number for distribution to the technicians; and (4) by the case number's first two digits for filing before processing. Also, technicians were responsible for a specific block of case numbers (sort no. 3 above). After the reorganization, they were responsible for processing specific types of actions and documents (sort no. 2). This change permitted OPM to eliminate sort number 3.

The section made the final sort and filing (sort no. 4) because each technician had a backlog of documents in file folders to be processed. The resulting delay in answering inquiries and processing changes often resulted in follow-up inquiries from annuitants which were also sorted and filed.

The section's supervisor agreed with us that the section could process the mail on the day it was received if they did not work on the backlog first. We therefore suggested that the daily mail be processed instead of sorted and filed. OPM made this change which eliminated sort number 4 and several other steps and should result in fewer followups and less work overall. Not only will the current requests be processed immediately, but the backlog will also be gradually processed and, over time, eliminated.

Matching pieces of correspondence from the same person and giving priority to that correspondence also helped reduce the backlog and the number of individual responses needed. OPM also analyzed the correspondence and found that many requests fell into two general categories, medicare and health benefits for family members, which could be answered by standard fact sheets. OPM is developing these sheets which should reduce the need for tailored responses.

Before the reorganization, many duties, such as sorting and filing documents, completing identification card requests, mailing forms, and searching files, were performed by technicians rather than clerks. OPM's reorganization reassigned many of these duties to clerks.

Case File Handling and Transportation Could Be Reduced

Every day the insurance section in OPM headquarters requests 250 to 300 retirement case files from the records center in Boyers. Boyers' personnel must search for and pull the records and refile them upon their return, and it takes the receiving headquarters insurance clerk about 4 to 5 hours a day to enter them into OPM's case control system.

Futhermore, insurance technicians at headquarters must take time to telephone Boyers to request files or fill out the forms to obtain them.

Most of this is unnecessary because many files don't need to be sent to Washington. For example, if an annuitant requests a change in life insurance coverage, the technician in Washington will complete a form to change the master annuity roll and request the individual's file from the records center in Boyers. The technician dates and initials the change records, places them in the file, and returns the file to Boyers. Files are also requested for review before responding to general inquiries even though the inquiries can normally be answered with a form letter or from information readily available from the automated master annuity roll.

Cognizant OPM supervisors estimated that the records center in Boyers could handle about 80 percent of the cases that are sent to headquarters. However, the Boyers section which would perform this work is under review to determine whether its functions should be contracted to the private sector. OPM officials said they would make no changes in the process until the contracting decision is made.

Use of the Health Insurance Change System Could Be More Efficient

When annuitants request changes in their health insurance enrollment, the computerized health insurance change system can be used to (1) determine current enrollment status and whether the requested change is permitted, (2) verify that the change was made, and (3) display a change history, including references to the source documents.

However, instead of using the display terminals to determine enrollment status before and after the change, technicians are obtaining printouts from the master annuity roll for this purpose. Also, before entering health insurance changes, technicians sort change requests in batches of 25 in case number order and manually record information from each request to a batch control sheet. Then they enter information from the control sheet into the health insurance change system. The technicians sort the changes and prepare the batch control sheets one day and enter the changes at the terminals the next.

Sorting the requests and recording them on batch control sheets are unnecessary. Information could be entered into the change system directly from the requests. Since the insurance technicians spend half of their time sorting the requests and entering data on the batch sheets,

eliminating these steps should enable the section to free technicians for other work.

Changes to the Master Annuity File Being Further Automated

OPM makes about 500,000 address changes annually, and each change requires 11 processing steps. OPM is developing a new automated system to process changes, including address changes, to the master annuity file. If the new system is properly implemented, it can substantially streamline changes to the master file. Under the new system, requests could simply be entered at a computer terminal, verified for data entry accuracy, and filed.

Conclusions

The reorganization and other changes in the insurance section greatly improved production and service to retirees. More improvements can be made by minimizing the transportation of case files between the records center and headquarters. A new computerized system being developed to process changes to master annuity files should, if properly implemented, streamline the processing of address and other changes. However, we found that the insurance unit missed significant opportunities to increase efficiency and service when it automated the health insurance change system. Thus, OPM will need to carefully monitor implementation of the new system for processing changes to the master annuity file to obtain maximum productivity and service to annuitants.

Recommendations

To further increase productivity and improve service to annuitants, we recommend that the Director, OPM,

- minimize the number of case files that need to be transported between Boyers and Washington, D.C.;
- revise procedures for processing health insurance changes to eliminate unnecessary work and obtain maximum benefit from the health insurance change system; and
- ensure that unnecessary processing steps are eliminated during implementation of the automated system for processing changes to the master annuity file.

Agency Comments and Our Evaluation

OPM agreed with our recommendations and has taken a number of steps to implement them. OPM said that at the time of our review, it was using a burdensome filing system for insurance enrollment changes and decided to microfilm the records for easier storage and access rather

than sending the documents to Boyers for filing. OPM told us that since the microfilming procedures are now fully implemented, several unnecessary work processing steps have been eliminated and productivity has been improved. For example, OPM said the number of casefiles transported between Boyers and headquarters has dramatically fallen from the 250 to 300 per day observed by us to 60 or 70 per day in February 1986. OPM also said that eliminating unnecessary steps in processing health insurance changes has further reduced the balance of work items on hand to 32,000 in February 1986 compared to 73,000 in June 1985 and 44,000 in October 1985. Finally, OPM stated that the new automated system for processing changes to the master annuity file will be implemented in a manner that ensures unnecessary processing steps are eliminated.

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Interest Lost by Delaying Processing of Service Credit Applications

Employees in the civil service retirement system normally contribute to the retirement fund through payroll deduction. Nonetheless, many employees owe the fund for periods of service for which contributions were either refunded to them (because they left federal service) or for periods when contributions were not required (e.g., temporary or intermittent employment). Employees who had such service and subsequently work in a position covered by the retirement system can receive credit for the noncovered service if they pay the contribution that would have been withheld, plus interest. They must make the payment by the time they retire to receive the credit, or under certain conditions, they may choose to receive a reduced annuity rather than make the payment.

In 1982, we reported[1] that OPM was losing income because it had suspended the processing of service credit applications, except for employees retiring immediately, to concentrate on other operations. In response, OPM agreed to begin processing these applications to the extent their resources and other work permitted. However, because it was not regularly assigning employees to process these applications, OPM was still taking longer than necessary to process them and to receive the payments. When it delays processing, OPM waives interest during the delay period. As long as the applicant pays the service credit before retirement, the interest for the delay period remains forgiven. If the applicant waits until retirement, full interest is charged.

Because of billing delays, the retirement fund loses money two ways—(1) interest forgiven the applicants and (2) interest the fund could have earned on applicants' payments if OPM had that money earlier to invest.

A determination of the amount of interest actually lost ultimately depends on how many applicants wait until they retire to pay their service credits and how many will pay earlier. While that is unknown, a sampling of payment activity indicates that, for applications processed in fiscal year 1985, the interest loss could be as much as $420,000 ($240,000 forgiven the applicants and $180,000 that could have been earned on the deposits if they had been available earlier to invest).

Interest Waived

Service credit applications receive low processing priority because federal employees have until they retire to pay the retirement fund to

[1] Updating Interest Rate Charges on Outstanding Civil Service Retirement Contributions Would Save Millions (GAO/FPCD-82-39, Aug. 4, 1982).

receive credit for the service. OPM's instructions to employees for completing the application state:

"Postponing payment of deposit will cause the amount to increase because of additional interest. However, so long as the deposit is not made, you have the use of your money for other purposes. You may postpone making the deposit until you retire, or, in the event of death before retirement, your widow (or widower) may make it."

In July 1979, OPM stopped charging interest on service credit applications for the period the applications were unduly delayed. OPM has defined undue delay as over 90 days and therefore forgives interest for the period that billing takes in excess of 90 days. As long as the applicant pays the service credit before retirement, interest for the delay period is forgiven. If the applicant waits until retirement to pay, full interest is charged.

By law the interest rate charged to employees who owe the fund money for previous refunds made or contributions for service performed before October 1, 1982, is 3 percent (before 1948, the rate is 4 percent). Applications involving refunds for service after October 1, 1982, are charged the average rate the retirement fund earned on its investments during the period. For example, the interest rate charged for calendar year 1985 was 13 percent based on fund earnings.

At the time of our review, OPM was averaging about 5 months to process these applications, thus it was forgiving about 2 months of interest on payments made before retirement. As shown in table 4.1, OPM forgave about $187,000 in interest charges on about 11,300 applications that it processed from October 1, 1984, to June 30, 1985.

Table 4.1: Interest Forgiven on Service Credit Applications

Month	Applications processed	Amount forgiven
October	1,565	$ 17,952
November	686	7,017
December	681	7,337
January	1,279	18,954
February	747	11,034
March	381	6,547
April	778	16,219
May	2,769	70,574
June	2,401	31,148
Total	**11,287**	**$186,782**

OPM said that the total interest waived during all of fiscal year 1985 was $241,961 and that its sample showed that 29.1 percent of dollars billed in November 1984 were paid in full by June 1985. Applying 29.1 percent to the total $241,961 waived, OPM estimated the real amount of interest lost was $70,400. This assumes that the rest of the bills—those not paid in full by June 1985—would not be paid until the applicants retired, and therefore OPM would recoup the rest of the waived interest. However, the applicants can still avoid incurring the waived interest by paying the service credit just before they retire. We therefore believe it is more likely that they will take advantage of that savings, and that the interest lost will be more than OPM estimated. Nevertheless, we would agree that some people will not pay until they retire and will therefore incur the waived interest. Accordingly, the real loss to the retirement fund will be less than the $241,961 of interest waived in fiscal year 1985 but the exact amount cannot be estimated.

At the beginning of fiscal year 1985, there were 8,800 applications awaiting processing. If lengthy processing times continue, forgiven interest could increase substantially because as time goes by, applicants will have less service time before October 1982 and more after that date.

According to the fiscal year 1984 annual report of OPM's Compensation Group, about 9 staff years were devoted to processing service credit applications. However, staff were assigned intermittently to this function rather than on a full-time basis. Thus, applications are processed sporadically. Periods when no applications were processed alternated with periods of intensive processing.

During our review, retirement program officials acted to speed processing of service credit applications. They made three additional staff available on an intermittent basis to process the applications. Also, deficiencies in the application form were identified and a revised form was prepared which is expected to cut in half the number of instances in which additional information must be obtained from the applicants.

Investment Interest Lost

As discussed before, people who are billed for service credits have until they retire to make payment, and in most cases, incur only 3-percent interest per year on what they owe. Despite the favorable interest rate, many applicants pay for their service credit early. To the extent OPM bills applicants sooner, the sooner it will receive payments that can be invested at a higher rate of interest than the 3 percent charged to the applicants.

The amount owed and billed on the 11,300 applications processed between October 1984 and June 1985 was about $44 million. As previously mentioned, an OPM sample indicated that 29.1 percent of November 1984 billings were paid in full by the following June. Applying the 29.1 percent payback experience on service credit billings, OPM could expect to receive $12.8 million of the $44 million billed before the employees retired. At that time, OPM earned 11.5 percent interest on its invested funds, or 8.5 percent more than applicants were charged. At 8.5 percent, the interest on $12.8 million for 1 month would be over $90,000. Since OPM took 2 months longer than its standard to process the applications, we conclude that it lost 2 months of potential interest or about $180,000.

OPM estimated the lost interest for 2 months to be $62,000 by using its experience that 9.83 percent of the $44 million in billings would be paid in 30 days (versus the 29.1 percent that OPM, in its test of bills and payments, found was paid back over several months). Either estimate is valid, although in our opinion it is more realistic to also include payments that are made after 30 days. The main point, with which OPM agreed, is that delays in billings are resulting in lost income and poor service to applicants.

Conclusion

Because OPM has not processed service credit applications more quickly, the retirement fund has lost money in interest waived from applicants and foregone investment earnings. Although some of the waived interest will no doubt be recouped, we believe it is reasonable to expect most applicants will take advantage of the full savings by paying for their service credits before they retire. In addition, the two months that OPM exceeded its 90 day processing standard deprived the fund of additional interest earnings. By staffing service credit application processing on a full-time basis, equivalent to the staff years of intermittent effort, we believe the delays could be reduced and fund earnings increased.

Recommendation

We recommend that the Director, OPM, regularly assign staff to process service credit applications in order to eliminate delays and enable the retirement fund to increase earnings.

Agency Comments and Our Evaluation

OPM agreed and said that for several years it had been concerned that it could not allocate more resources to processing these applications. OPM stated that additional resources have now been allocated to this function and applications are being processed within 40 days compared to an average of 150 days at the time of our review. OPM said it was considering other policy changes which will reduce the number of requests from employees seeking "information only" and improve service to those who intend to pay the amounts owed the retirement fund.

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OPM Processing Statistics

	Fiscal year		
	1983	1984	1985
Applications			
Retirement and survivor benefits	166,559	166,656	174,111
Disability benefits	26,316	19,833	20,769
Refunds	148,888	160,230	170,311
Service credit	28,868	25,385	28,259
Total	**370,631**	**372,104**	**393,450**
Annuity roll maintenance			
Address changes	461,100	589,700	508,450
Insurance enrollment actions[a]	361,336	416,990	318,903
Tax/other withholding changes	699,111	417,290	323,174
Annuity roll inspection actions	131,397	85,374	84,159
Other	225,116	355,379	391,980
Total	**1,878,060**	**1,864,733**	**1,626,666**

[a]The actions include processing insurance changes, mailing health benefit forms and brochures on request, and responding to inquiries.

Advance Comments From the Office of Personnel Management

United States
Office of Personnel Management
Washington, D.C. 20415

FEB 27 1986

In Reply Refer To

Your Reference

Mr. William J. Anderson
Director, General Government Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Anderson:

Thank you for the opportunity to comment on your draft report, "Federal Retirement Records Processing Is Better, Can Be Further Improved" (GAO/GGD 86-47).

By focusing on work processes, the GAO report identified a number of inefficiencies in the system. As the report pointed out, OPM has implemented several of the recommendations that were developed during the course of the GAO study. In addition we are evaluating process changes in several other areas identified by GAO.

The following are OPM's comments on the specific GAO recommendations contained in the report.

Chapter 2: Automated Processing is Being Streamlined

RECOMMENDATION: [That OPM] implement automated case control systems for more efficient processing of refund applications and service credit applications.

COMMENTS: OPM has developed a new process framework for the refund file system and the service credit system, and new systems are currently being developed by our automated systems staff.

RECOMMENDATION: [That OPM] revise the processing of benefit applications from survivors of annuitants to allow staff at Boyers to make the final review and decision on these cases.

COMMENTS: We fully support the objective of this recommendation which is to process survivor claims more efficiently. The recommendation that Boyers do the final adjudication is one of several alternatives. Another is to eliminate the Boyers step of initiating special payments and to proceed directly to final adjudication by the Washington staff. Over a period of time, we have made similar changes in the processing of retirement [as opposed to survivor] claims with good results. The GAO

option cannot be implemented while we are under the current hiring limitations. Gramm-Rudman-Hollings resource reductions actually make the other option--eliminating special pay--even more desirable. However, to implement it, without serious degradation in service to claimants, requires that we give priority attention to these claims in our adjudication process. We are not able to do so now because our retirement claims workload is in its seasonal peak.

RECOMMENDATION: [That OPM] automate the process of generating annuity pay histories.

COMMENTS: As a part of a much broader initiative, OPM has formulated a strategy that achieves the objective of this recommendation. Completion of the "Front End ACF" system, currently under development, and implementation of the relevant modules of the Post Adjudication Support System (PASS) will result in full automation of the processing of survivor claims and check reclamation.

RECOMMENDATION: As part of the President's Productivity Improvement Program, analyze all of OPM's retirement processing operations for opportunities to increase productivity, reduce costs, and improve service.

COMMENTS: In 1985, OPM considered all retirement processing operations in choosing the project that was submitted for inclusion in the President's Productivity Improvement Program. That project--implementation of the PASS in support of the 1.9 million accounts which compose the Civil Service Retirement annuity roll--was submitted by OPM in July 1985 to the President's Council on Management Improvement as one of OPM's highest priority projects for improving program/service delivery. Pending the issuance of an implementing Executive Order and guidance from OMB, OPM is planning its productivity improvement agenda. We believe that PASS is an extraordinary improvement project, even broader in scope than will be called for in the OMB guidance.

To augment the Presidentially mandated productivity improvement program, Compensation Group had planned to conduct overall efficiency and effectiveness reviews of the refund and service credit functions during March 1986. These reviews have been postponed because of travel cutbacks due to Gramm-Rudman-Hollings.

Chapter 3: Productivity Improvement in Annuity Roll Maintenance

When GAO began its review of insurance actions for annuitants, the Office of Retirement Programs (ORP) was in the midst of an extensive re-evaluation of the work processes in its Insurance Services Section. This re-evaluation was triggered by a concern for the unusually large number of work items on hand. ORP had already tried several ways of screening and assigning work and was prepared to settle on the one that GAO refers to as a reorganization. ORP was also using a burdensome interim filing system for enrollment change documentation. It had decided to microfilm records of enrollment changes, starting with those resulting from the November 1984 Open Season. It had purchased microfilm reader equipment and had discontinued the practice of sending documentation to Boyers for filing in the annuitant's casefile, but had not begun to receive microfilmed records. The interim filing system that GAO found responsible for several unnecessary work processing steps is being streamlined now that microfilming is fully implemented.

RECOMMENDATION: Minimize number of casefiles that need to be transported between Boyers and Washington, DC.

COMMENTS: The number of casefiles requested by Insurance Services Section (ISS) each day has fallen dramatically from the 250-300 per day observed by GAO. During February 1986, the number of cases logged-in has consistently been in the range of 60-70 per day. Those cases include those that were requested in order to respond to Congressional and controlled correspondence as well as those required for reference to original enrollment forms processed before late 1984 and consequently not documented in microfilm files.

RECOMMENDATION: Revise procedures for processing health insurance changes to eliminate unnecessary work and obtain maximum benefit from the health insurance change system.

COMMENTS: Productivity has improved in the ISS by reorganizing work flow and eliminating unnecessary steps in work processes. The balance of work items in the ISS was 32,038 as of February 18, 1986, compared to the 44,000 referenced in the GAO draft--which was already considerably lower than the 73,000 in June 1985 that triggered our re-evaluation. Full implementation of microfilming has enabled us to eliminate some steps. Other steps identified by GAO for elimination during the course of their review have been retained for necessary internal control purposes.

RECOMMENDATION: Ensure that unnecessary processing steps are eliminated during implementation of the automated system for processing changes to the master annuity file.

COMMENTS: PASS will be implemented in a manner that ensures unnecessary processing steps are eliminated. Implementation of the automated system for processing health insurance enrollment changes is not indicative of how the automated system for processing annuity roll changes (PASS) will be implemented. The automated health benefits enrollment system, like most of the automation enhancements implemented since the annuity roll system was designed over 15 years ago, automated particular transactions and some steps of an essentially manual process. The PASS concept is vastly different.

As part of a wholesale redesign of annuity roll account maintenance functions, PASS modules are not being designed to recreate manual processes, but rather create a completely new work flow. The first module to be implemented will be the change of address function. We are prepared to establish entirely new procedures for handling changes of address once the design of the automated aspects of the system is complete. Incidentally, the 11 steps that GAO refers to in the current process are mainly clerical processes (such as opening all the envelopes) that are inherent in any high volume operation.

Chapter 4: Interest Lost by Delaying Processing of Service Credit Applications

RECOMMENDATION: We recommend that the Director, OPM, regularly assign staff to process service credit applications in order to eliminate delays and enable the retirement fund to increase earnings.

COMMENTS: For several years OPM has been concerned about its inability to allocate more resources to the processing of service credit cases (applications for deposit). In the summer of 1985, we found a partial solution to this problem. We saved three staff years (FTE's) through productivity improvements resulting from implementation of the most efficient organization in preparation for the A-76 study of the retirement records filing function in Boyers. These resources were reallocated to the service credit function. As a result, the backlog decreased and service credit computation requests are currently being processed within forty days, provided the information in the claim is complete and accurate. On February 19, 1986, applications from January 10, 1986 were being processed.

The amount of interest waived currently is much less than GAO observed. Interest that is waived because of processing delays only becomes a real loss if the applicant pays the account in full prior to retirement. If the applicant never pays anything on the account, or only makes a partial payment, there is no lost income. If the account is not paid in full by retirement, the amount is computed anew as part of retirement processing, and the annuitant is informed of the total amount payable.

In an OPM sample, only 29.1% of the dollars billed during November 1984 had accounts paid in full by June. This is consistent with GAO's finding of 26%. The total interest waived in FY 85 was $241,961.

Using the 29.1% pay rate from the OPM review, the real amount of interest income lost in FY 85 was $70,400. Using the $186,782 figure for October through June cited in your draft report and the pay rate found by OPM, the real loss was $54,350.

While OPM's review constitutes a one-time look at this point and average rates of payment may be higher or lower, it is clear that the real loss to the retirement fund is far less than the amount waived "on the books."

Neither do OPM's findings support GAO's figure of $160,000 in lost investment income. In order to have lost investment income, there must be applicants who were waiting to receive their account statements, and who would have paid us sooner if we had billed them sooner. We do not consider there to have been lost income on an account which is paid some time after being billed. However, your report did so in computing the lost investment income.

The report computed the $160,000 by using the $44 million billed for the nine-month October 1984 to June 1985 period, and a 26% overall pay rate based on past OPM payment experience, giving $11.3 million in expected payments for the period. However, if one uses the .0983 pay rate found for accounts which were paid in full in 30 days, the lost investment income would be $62,000 for two months.

In summary, while we believe our approach is more accurate and that the real lost investment income is significantly less than GAO computed it to be, the point being made is valid--delays in billing are resulting in both lost income and poor service to applicants.

We are considering changes in OPM policy such as requiring an up-front payment before we will compute the amount due, imposing a pay-for-it-or-lose-the-credit deadline on payment, increasing the minimum acceptable payment, allowing payroll deductions, limiting the number of times we will calculate payment due from the same person, or deferring our calculation until time of retirement. These changes will reduce the number of requests from employees who are interested in "information only," and improve the service to those who intend to make deposits.

Thank you for the opportunity to comment on the draft report.

Sincerely,

James W. Morrison, Jr.
Associate Director
for Compensation

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